

## NEWS RELEASE

30 August 2019

### KSC Announces Full Year Result for 2019

The Directors of K&S Corporation Limited (ASX: "KSC") today announce a statutory profit before tax of \$3.2 million for the year ended 30 June 2019. The result is 87% lower than the prior corresponding period.

Statutory profit after tax was \$2.3 million, down 86.4% on the previous year statutory profit after tax of \$17.1 million.

The current year was significantly impacted by the full year impact of increased rail network costs following the closure of the Company's rail provider Aurizon in FY18. The increased costs borne by the Group in the current year are estimated at \$6.4 million. The FY18 statutory profit before tax of \$24.6 million included significant items for non-recurring benefits of \$13.6 million.

Operating revenue for the period was \$905.2 million, 7.2% higher than the prior corresponding period.

After adjusting for a number of significant items including the benefit from the finalisation of the Aurizon rail claim and costs associated with several restructuring activities, the current year underlying profit before tax<sup>1</sup> was \$3.2 million, a decrease of 70.5% on the prior corresponding period.

The underlying profit after tax<sup>1</sup> was \$2.3 million, down on the prior corresponding period by \$5.3 million.

Included in the Company's statutory result for FY19 was a \$9.5 million (before tax) accounting gain relating to the settlement of claims arising out of the closure of Aurizon's intermodal business in December 2017. The Company's statutory result also included \$9.2 million of non-recurring accounting charges, including impairment costs, which primarily relate to the Company's exit from its WA General Freight business.

Operating cashflow for FY19 was \$61.8 million, 51.5% higher than for the previous year. Operating cashflow benefitted from the receipt of \$25 million in settlement proceeds from Aurizon and a focus on working capital management.

Safety remains a key focus for K&S. Our lost time injury rate increased to ten in FY19 (nine in FY18). With injury frequency rates not declining in the last two years, we are currently reviewing opportunities for cultural change to drive improvement for safety management.

The Australian Transport business has had a mixed year. Our contract logistics business grew revenues and profit contribution. Steel volumes from our major customers also remained strong. However, the chemical transport division (Chemtrans), K&S Energy, the WA General Freight division, and the South West WA division all experienced a disappointing year. As noted above, our intermodal business has also incurred increased pre-tax costs of approximately \$6.4 million in FY19 as a consequence of the closure of Aurizon's intermodal business.

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The New Zealand business delivered another sound result in FY19, with revenue and profits up on FY18. Our strategy has been to provide integrated and value adding service offerings to our major customers. We also continue to strive to further diversify our New Zealand business.

Our Fuel trading business, K&S Fuels, has again provided sound financial results in FY19, with revenue and profits also up on FY18. However, the fuel retailing and wholesaling market are dynamic and continue to exhibit a high level of competition.

In October 2018, we completed the redevelopment of our company owned property at Welshpool in Perth for a tenant who will occupy this property under a 15 year lease.

In May 2019, the Company successfully extended the terms of its existing \$40 million multi-option finance facility with Commonwealth Bank of Australia and its \$25 million multi-option facility with Westpac Banking Corporation to April 2021 and February 2021 respectively.

Cost reduction strategies have continued to be implemented across the business, in particular, operational efficiencies, supplier re-negotiations, and the rationalisation and replacement of specific fleet. Ongoing cost reduction initiatives had a positive impact on the result for FY19.

#### **Regal General Freight**

As advised, on 28 August 2019 an unconditional agreement was entered into by Centurion Transport Co. Pty Ltd ("Centurion"), Regal Transport Group Pty Ltd ("Regal") and K&S Freighters Pty Ltd ("KSF") for the sale of the business and certain assets of the Group's Western Australia based Regal General Freight business. The parties are currently completing the transaction.

K&S' 30 June 2019 financial statements include an after-tax charge of \$5.1 million in relation to accounting adjustments including impairment charges, as a result of the transaction.

K&S will continue to operate and invest in its Western Australia based Regal Heavy Haulage business.

#### **Dividend**

Given the magnitude of the recent changes, the Directors have elected not to declare a final dividend (2018: 2.0 cents per share). An interim dividend of 2.0 cents per share was paid in April 2019, making a total dividend of 2.0 cents per share in respect of the year ended 30 June 2019.

#### **Board Composition**

On 27 August 2019, K&S announced that Sallie Emmett had been appointed as a non-executive director with effect from 24 September 2019. Mrs Emmett is a lawyer with over 30 years' experience as a practising solicitor in both legal and management roles. Mrs Emmett has a broad range of commercial exposure, including to the transport sector, and expertise in workplace relations.

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## Outlook

Providing earnings guidance going forward remains difficult.

We will continue to focus on organic growth, particularly in market segments such as contract logistics that will deliver stronger returns on investment.

We continue to review the industry segments in which we operate as well as the ways in which we offer our services to the market. Our current focus includes the general freight businesses in South Australia and the Northern Territory. We are also reviewing customer accounts that currently do not generate adequate returns.

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### Further Information:

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1. Underlying profits are categorised as non-IFRS financial information and therefore have been presented in compliance with ASIC Regulatory Guide 230 – Disclosing non-IFRS financial information issued in December 2011. Underlying adjustments have been considered in relation to their size and nature, and have been adjusted from the Statutory information for disclosure purposes to assist readers to better understand the financial performance of the underlying business in each reporting period. The adjustments are detailed in Annexure A to this announcement. The exclusion of these items provides a result which, in the Directors view, is more closely aligned with the ongoing operations of the Consolidated Group. The non-IFRS information has not been subject to review by the auditor.

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## Annexure A – Financial Overview

<b>Financial Overview</b>		<b>2019</b>	<b>2018</b>	<b>% Movement</b>
<b>Operating Revenue</b>	\$'000	905,207	844,136	<b>7.2%</b>
Statutory profit after tax	\$'000	2,321	17,124	<b>(86.4%)</b>
Statutory profit before tax	\$'000	3,197	24,600	<b>(87.0%)</b>
Earnings before interest and tax (EBIT)	\$'000	11,158	31,656	<b>(64.8%)</b>
Earnings before interest, tax and depreciation (EBITDA)	\$'000	60,515	74,023	<b>(18.2%)</b>
Less non-recurring legal settlement	\$'000	(9,525)	(10,900)	<b>(12.6%)</b>
Less other non-recurring expenses / (income)	\$'000	9,572	(2,698)	<b>(454.8%)</b>
Underlying profit before interest, tax & depreciation	\$'000	60,562	60,425	<b>0.2%</b>
Underlying profit before interest & tax	\$'000	11,205	18,058	<b>(37.9%)</b>
Underlying profit before tax <sup>1</sup>	\$'000	3,244	11,002	<b>(70.5%)</b>
Underlying operating profit after tax <sup>1</sup>	\$'000	2,354	7,605	<b>(69.0%)</b>
Total assets	\$'000	579,778	553,369	<b>4.8%</b>
Net borrowings	\$'000	131,605	129,964	<b>1.3%</b>
Shareholders' funds	\$'000	240,331	220,867	<b>8.8%</b>
Depreciation & amortisation	\$'000	49,357	42,367	<b>16.5%</b>
Dividend per share	cents	2.0	4.0	<b>(50.0%)</b>
Net tangible assets per share	\$	1.86	1.72	<b>8.1%</b>
Operating cash flow	\$'000	61,833	40,812	<b>51.5%</b>
Return on assets	%	0.4	1.4	<b>(71.4%)</b>
Gearing	%	35.4	37	<b>(4.3%)</b>
Employee numbers		2,749	2,814	<b>(2.3%)</b>
Lost time injuries		57	55	<b>3.6%</b>
Lost time injuries frequency rate		10	9	<b>11.1%</b>

<sup>1</sup> Underlying profits and earnings per share based on underlying profits are categorised as non-IFRS Financial information and therefore have been presented in compliance with ASIC Regulatory Guide 230- Disclosing non-IFRS information issued in December 2011. Underlying adjustments have been considered in relation to their size and nature, and have been adjusted from the statutory information for disclosure purposes to assist readers to better understand the financial performance of the underlying business in each reporting period. These adjustments primarily include the Aurizon settlement, impairment and onerous lease costs. The exclusion of these items provides a result which, in the Directors view, is more closely aligned with the ongoing operations of the Consolidated Group. The non-IFRS information has not been subject to audit or review by the auditor.